



Why Penn West Petroleum Ltd. Has More Upside Than Lightstream Resources Ltd.

Description

As oil prices have plunged, certain producers have been hit especially hard. Of course, I'm speaking about companies with heavy debt loads. These firms will struggle to survive in today's oil-price environment, and their shares have collapsed as a result.

This brings about an interesting question: Are producers a good way to bet on an oil rebound? After all, since their stock prices have collapsed so much in the last year, does that mean their stocks have more upside today?

To answer this, I must first make one point very clear: If oil doesn't rebound, these stocks are likely worth zero. Let me repeat this in a different way. If oil prices stay flat, these producers probably won't be able to satisfy their creditors. So, you should be very careful.

With this in mind, these stocks must come with tremendous upside to compensate for the risk. We take a look below to see if that's what we get.

Lightstream Resources Ltd.

Low oil prices have landed a heavy blow on **Lightstream Resources Ltd.** (TSX:LTS). Once a dividend champion, its shares are down by 84% in the past year.

The future doesn't look much brighter. Lightstream has \$1.6 billion of debt, and expects to renegotiate terms with its lenders this year. The company is trying to sell its Bakken assets to lighten the load, but can't get any reasonable offers. At this point, bankruptcy looks likely if oil prices don't recover.

So, how much reward is there to compensate for this risk? Well, according to a recent press release, the company's reserves are worth nearly \$2.3 billion after tax (assuming a swift oil recovery). After adjusting for debt and other factors, Lightstream would be worth about \$500 million, or slightly less than three times the current stock price. How does this number compare with **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE)?

Penn West Petroleum Ltd.

Like Lightstream, Penn West is in serious trouble. Low oil prices have put pressure on the company, and unless there is a recovery, the stock is likely worth zero. As it stands, its shares are down by 80% in the last 12 months.

However, if oil prices recover, there is some serious upside. More specifically, if oil prices average US\$65 this year and US\$80 in 2016, Penn West is worth roughly \$8 per share, nearly five times the current stock price.

So, there seems to be more upside with Penn West than with Lightstream.

What should investors do?

Personally, I have no interest in either of these stocks. I don't want to own any stock that could go to zero. That said, if you have a high risk appetite and believe oil is due for a rebound, then Penn West could reward you very handsomely.

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